

Business Management

Accounting fundamentals (LCBB4001)

Assignment – A1

Student: Alina-Valeria Buzuloiu

Student no 2029963

QUESTION 1 a) - COMPANY ACCOUNTS

Kedison Ltd

Income statement for the year ended 31st December 2020

	£
Revenue (W1)	827,630
Cost of sales (W2)	<u>(581,650)</u>
Gross profit	245980
Distribution costs	(28,000)
Administrative expenses (W3)	<u>(35,000)</u>
Operating profit	182,980
Interest payable (100,000 x 4%)	<u>(4000)</u>
Profit before taxation	178,980
Taxation	<u>(68,000)</u>
Profit for the year	<u>110,980</u>

Statement of Financial Position as at 31st December 2020

	£	£
Non-Current assets		
Plant and equipment		632,730
Current assets		
Stock at 31 st December 2020		330,600
Debtors (Trade receivables) (W4)		171105
Cash and bank		<u>12,900</u>
		<u>514.605</u>
Current liabilities		
Creditors (Trades payables) (W5)	174,355	
Interest UNPAID (W6)	2,000	
Taxation (W7)	<u>68,000</u>	
	<u>244,355</u>	
Total assets		<u>1,147,335</u>
Total assets less Current liabilities		902,980
Long term liabilities (Debentures)		<u>(100,000)</u>
Net assets		<u>802,980</u>
Equity		
£1 Ordinary shares		310,000
10% £1 Preference shares		300,000
Retained Profits (W8)		192980
		<u>802980</u>

b). *Why does the statement of financial position balance?*

Unlike other financial statements, **The statement of financial position** (also called Balance sheet) represents a snapshot of business' transactions of assets, capital and liabilities at a certain point in time.

Each transaction is affecting two items in the statement of financial position, based on the accounting principle of double entry. This accounting system records all transactions in at least two different accounts and thus ensuring that the statement of financial position always "balances" i.e., either by adding or deducting equally on both sides, or a plus and a minus on assets side cancelling each other out.

Workings for Question 1

W1. Revenue = Sales + Goods valued sent to customers

$$£ 826,650 + £ 980 = £ 827,630$$

W2. Cost of sales = Cost of sales + Commission owed

$$£ 578,650 + £ 3,000 = £ 581,650$$

W3. Admin expenses = Admin expenses + Directors remuneration

$$£ 30,000 + £ 5,000 = £ 35,000$$

W4. Debtors = Debtors + goods sent to customers

$$£170,125 + 980 = £ 171,105$$

W5. Creditors = Trade creditors + Commission owed

$$£ 171,355 + £ 3,000 = £ 174,355$$

W6. Total interest = Debentures x 4% = £ 100,000 x 4% = £ 4,000

Interest UNPAID = Total interest – Interest paid

$$£ 4,000 - £ 2000 = £ 2,000$$

W7. Taxation = Tax Paid + Unpaid = £ 0 + £ 68,000 = £ 68,000

W8. Retained profits

Retained profits at 1 st Jan 2020	132,000
Profit for year	110,980
Ordinary dividends paid	(20,000)
Preference dividend paid	<u>(30,000)</u>
	<u>11,860</u>

QUESTION 2

Ratio	Working (2020) £ m	Working (2019)	2020	2019
ROCE	$805 / (9,736 - 2,511) \times 100$	$699 / (10,087 - 3,046) \times 100$	11.1%	9.9%
ROE	$431 / 3,088 \times 100$	$366 / 2,912 \times 100$	13.9%	12.5%
EPS	431/300	366/300	£ 1.43	£ 1.22
Net profit margin	$805 / 6,738 \times 100$	$699 / 6,441 \times 100$	11.9%	10.8%
Asset turnover	$6.738 / 6970$	$6,441 / 6,799$	0.96	0.94
Stock holding days	$708 / 3,235 \times 365$	$659 / 3,096 \times 365$	80 days	78 days
Debtors collection period	$1,249 / 6,738 \times 365$	$1,287 / 6,441 \times 365$	68 days	73 days
Current ratio	$2,303 / 2,511$	$2,355 / 3,046$	0.9	0.7
Gearing	$4,137 / (4,137 + 3,088) \times 100$	$4,129 / (4,129 + 2,912) \times 100$	57.2%	58.6%
Interest cover	805/226	699/181	3.5 times	3.8 times

Based on the financial statements for 2020 and 2019, we can observe that Chocco Plc. has a stable and efficient financial position, as follow:

- Turnover has slightly increased in 2020 compared to 2019, a possible reason could be increasing the products range and expanding market
 - Supermarkets are competitive so little scope to increase prices
 - Gross profit margin relatively stable
- Expansion has not required major investment in property, plant and equipment (non-current assets has not increased and asset turnover ratio very slightly improved).
- Distribution costs increased it may be due to market expansion, increased transport costs affected by Covid-19 etc., resulting in a decrease in net profit margin.
- Slight increase in stock holding period, which may be a result of the difficulties created by the Covid-19 pandemic
- Debtors' collection period registered a decrease, possibly due a very good and well-established business relationship with its clients.
- Interest cover slightly decreased, it may be due to increased loans and other borrowings.
- ROCE and ROE has improved, indicating an efficient use of capital

Referencing:

1. Sangster, A., Gordon, L., Frank Wood's Business Accounting 1, 14th ed., Harlow, Pearson, 2018, 780 p.: